



Submission No 83

Inquiry into Australia's Relationship with Timor-Leste

Name: Department of Foreign Affairs and Trade – Supplementary Submission

Joint Standing Committee on Foreign Affairs, Defence and Trade
Foreign Affairs Sub-Committee



Australian Government

Department of Foreign Affairs and Trade

**Supplementary submission to the
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Question: Timor-Leste has been described as being strategically important to Australia. Why has this assessment been made?

1. As a very near neighbour, Australia's relationship with Timor-Leste is strategically important to a number of our interests. Security incidents, such as those experienced in Timor-Leste in 1999 and 2006, threaten Australia's broader interest in regional stability. Australia has played a leading role to support stability and provide humanitarian assistance to Timor-Leste in response to such incidents.
2. Our close proximity to Timor-Leste means we also share a number of regional interests: promoting democracy, ensuring maritime security, addressing irregular migration and promoting good management of fisheries. Cooperation with Timor-Leste and other partners in regional forums, such as the ASEAN Regional Forum and the Bali Process, helps to protect Australian and Timorese interests.
3. Through arrangements established under the Timor Sea treaty regime, Australia and Timor-Leste share joint management of significant oil and gas resources in the Timor Sea. Australia's joint management with Timor-Leste of these resources has facilitated development of the resources and delivered substantial benefits to both countries. These are significant shared strategic interests.

Question: How sustainable is Oecusse as a part of Timor-Leste?

4. The challenges faced by Oecusse are not unlike those faced by other districts of Timor-Leste: access to clean water, electricity and the poor state of roads and bridges and other infrastructure are all key issues. Geographic isolation makes these problems more acute and brings with it other unique challenges to the movement of people and delivery of public services.
5. In addition to these development challenges, two segments of the land border between Oecusse and Indonesian West Timor (Nusa Tenggara Timur province) remain unresolved. Leaders from both sides have pledged to work to resolve the issues and the relevant working groups will continue to work

towards solutions. Nevertheless, disputes over use of land have led to low level tensions between residents in recent years.

6. There is significant cross-border movement of people and goods. While Oecusse residents clearly identify as Timorese, enduring socio-cultural ties with residents of their neighbouring Indonesian province see a steady movement of people back and forth across the border. Oecusse residents access many basic goods from West Timor. The Timorese and Indonesian governments have implemented a border-pass system to facilitate this movement and in June 2013 agreed to open further border crossing points.

7. The Timor-Leste Government has designated Oecusse as a 'Special Social Market Economy Zone' and appointed former Prime Minister Mari Alkatiri to develop a Master Plan for the Special Zone. The Plan envisages a significant investment of up to US\$4 billion in Oecusse from 2014-2030 and includes projects in infrastructure, education, health and tourism.

Question: How often do embassy officials visit Oecusse?

8. The Ambassador and officials from the Australian Embassy in Dili visit Oecusse regularly to attend official events and ceremonies, monitor the political, economic and civil order situation and to visit recipients of funding under the department's Direct Aid Program.

9. In the last two years, the Ambassador travelled to Oecusse on three occasions (in March 2011, June 2011 and June 2012). The DFAT First Secretary and Political Research Officer visited in September 2012. AusAID officials have conducted at least 10 visits to Oecusse in the last two years, including three visits by the AusAID Country Head.

Question: Would you discuss the transport and telecommunications links between Oecusse and the rest of the country?

10. Oecusse is connected to the rest of Timor-Leste by road, which passes through Indonesian West Timor (Nusa Tenggara Timur). There is a weekly sea ferry that operates directly between Dili and Oecusse's main town, Pante Makassar. Light aircraft are able to land at an airstrip near Pante Makassar (however, there are no scheduled air services). Telecommunications services are provided by Timor Telecom, Telkomcel (an Indonesian company) and Telemor, which offer mobile telephone and internet services throughout Timor-Leste.

Question: What plans are there to improve these links?

11. The Timor-Leste Government's Strategic Development Plan 2011-2030 and the Master Plan for the Special Social Market Economy Zone outline plans to upgrade road infrastructure within Oecusse. Both the Strategic Development Plan and Master Plan also include plans to upgrade passenger and cargo port facilities in Oecusse (already underway with assistance from Japan), rehabilitate Oecusse's airstrip and upgrade telecommunications infrastructure.

Question: What were the underlying conditions which led to the 2006 crisis?

12. The abandonment of barracks by disaffected members of the Timor-Leste Defence Force and the response of the then government and a number of state institutions was the immediate cause of the political and security crisis of 2006.

13. The underlying conditions that led to the 2006 crisis were considered by the United Nations in an Independent Special Commission of Inquiry for Timor-Leste, established at the invitation of the Timorese Government. The commission reported the crisis could be explained largely by the frailty of state institutions and weakness of the rule of law.

14. The commission acknowledged that the crisis was partly created – and exacerbated – by communal factionalism, particularly the perception that persons from the east and west of Timor-Leste discriminated against each other. This manifested itself within the Timorese defence force and police as actual or perceived acts of discrimination. The commission found a widespread view that such factionalism was manipulated by groups with specific political interests during the crisis.

Question: How likely is it that those conditions could return and trigger another crisis?

15. We assess the likelihood that the same conditions could trigger another such crisis is low. The security environment has improved markedly since 2006. Timor-Leste has made good progress on strengthening security institutions. Australia supported this through its leadership of the International Stabilisation Force and continues to contribute to significant police and defence capacity building programs and support for state institution building.

16. The security threat posed by disaffected groups has diminished and the Timorese-led political reconciliation processes contributed to peaceful elections in 2012. Following the successful conduct of elections during 2012, Australia agreed with the UN Security Council's recommendation that the UN Integrated Mission in Timor-Leste, mandated to restore order and promote political reconciliation, should be concluded.

Question: Austrade notes on page 2 of its submission that Timor-Leste is the only country in the Pacific with double digit inflation, around 12 per cent. What are the causes of this inflation?

17. A combination of internal and external economic factors contribute to inflation in Timor-Leste. The Timor-Leste Government has sharply increased public investment in infrastructure in recent years. Some inflation has resulted given capacity-constraints, import dependence and limited absorptive capacity of the economy. Fluctuations in global food prices are another significant factor. Food constitutes 60 per cent of the CPI basket and around half of all food is imported.

Question: Is there a prospect of improvement?

18. The Timor-Leste Government set an inflation target of 7 per cent in its 2013 budget. The IMF estimates that the inflation rate will decrease from 11.8 per cent in 2012 to 8 per cent in 2013. Declining international commodity prices, the rising US dollar (Timor-Leste's currency) and recent completion of the national electrification project in 2012 may reduce inflationary pressures in the short term. Recent sharp increases in public spending are expected to moderate over the next few years. If important structural reforms are implemented, such as improvements in infrastructure, this would remove supply bottlenecks and inflation may decrease over the medium term.

Question: You note on page 12 of your submission that the Australian Embassy supported the D'Tour concert in Dili. Has the Australian Ambassador discretion to provide support for other events?

19. The Australian Embassy in Dili hosts a range of cultural events each year as part of its public diplomacy program. The embassy identifies public diplomacy opportunities and makes bids for public diplomacy funding from the Department of Foreign Affairs and Trade. Bids are assessed in line with the department's annual public diplomacy strategy.

20. Events supported by the embassy promote cultural exchanges, highlight the breadth of the bilateral relationship between Australia and Timor-Leste, promote positive images of contemporary Australia and support the building of people-to-people links.

21. In May 2013, the embassy facilitated the visit to Timor-Leste of Australian Nobel Laureate, Professor Brian Schmidt, and Principle Advisor for Research at the Productivity Commission, Dr Jenny Gordon, under the Jose Ramos-Horta Nobel Initiative. The embassy also supported the visit to Timor-Leste in May by Indigenous Australian band B2M to perform at the Baucau Music and Arts Festival and to host workshops with a range of community groups in Baucau district. The response from the people of Baucau to the visit by B2M was very positive.

Question: On page 2 of the Transcript, Mr Cox commented that there was 'potential for strong cross-border trade, economic and social links between Indonesia and Timor-Leste.' Would you provide more information on the nature, current status, and potential of cross-border trade, economic and social links?

22. Trade and economic links between Timor-Leste and Indonesia are growing. Indonesia is already Timor-Leste's largest trading partner for merchandise goods. Between 2008 and 2012, the volume of trade between the two countries is reported to have increased by 27 per cent. Trade in merchandise goods between Indonesia and Timor-Leste was reportedly valued at US\$258.8 million in 2012. A number of Indonesian businesses have invested in Timor-Leste. These include the oil and gas company Pertamina, regional airlines Merpati Nusantara Airlines and Siritwijaya, Bank Mandiri and construction firms Wijaya Karya and Pembangunan

Perumahan. Telkomcel offers mobile telecommunications services throughout Timor-Leste.

23. Social links are also strong. Although reliable data is not available, there are understood to be around 6,000 students from Timor-Leste studying at secondary and tertiary level in Indonesia. The completion of an agreement on air services between Timor-Leste and Indonesia in 2010 has increased the frequency of flights between Dili, Denpasar and Jakarta. As noted above, both governments have established arrangements for short term movement of people living in border communities to facilitate longstanding social and trade links. Indonesia has announced it will establish a cultural centre in Dili to promote people-to-people links.

24. We expect trade, economic and social links will continue to increase as Timor-Leste's economy grows and both governments take further steps to facilitate movement of goods and people. To this end, during Timorese President Taur Matan Ruak's state visit to Indonesia in June 2013, Timor-Leste and Indonesia signed a number of agreements and agreed to increase cooperation on agriculture, education, fisheries, forestry, and transportation.

Question: You note on page 16 of your submission that Australia supports Timor-Leste's aspiration to join ASEAN. How has Australia supported Timor-Leste in its application to join ASEAN?

25. Timor-Leste's application for membership is a matter for ASEAN members to decide. Australia has previously made representations to ASEAN members to give favourable consideration to Timor-Leste's application, given the range of benefits that would result.

Question: How soon might Timor-Leste become a member of ASEAN?

26. This is a matter for ASEAN members to decide. It will depend on ASEAN's internal processes. Leaders agreed at the ASEAN Summit in November 2011 in Bali to establish a working group under the ASEAN Coordinating Council to consider Timor-Leste's prospective membership. There was agreement at the ASEAN Summit in April 2013 to explore the options for Timor-Leste to participate in select activities as a capacity building opportunity.

Question: Would you discuss the benefits that would result?

27. As a member of ASEAN, Timor-Leste would benefit from closer strategic, economic and social ties with its neighbours in the region. Membership of ASEAN would provide opportunities for increased practical cooperation on shared security issues in the region. Greater economic connectivity with ASEAN members would support Timor-Leste's development through trade and investment opportunities. Closer people-to-people links, including opportunities for Timorese students to study in ASEAN countries, would strengthen social and cultural relations in the region.

Question: On page 7 of the Transcript, Mr Cox took a question on notice concerning whether Timor-Leste had an auditor general. The Committee is also interested in the accountability framework in Timor-Leste. Would you describe the accountability framework for government, municipal councils and Suco councils? How are they held accountable for the decisions they make or for the money they spend? What are the appeal mechanisms at each of the three levels of government? What is the relationship between these three levels of government? What is Australia doing to strengthen this accountability framework?

28. Timor-Leste is a unitary state, governed by a single national government. It is divided administratively into districts, sub-districts and villages (*sucos*). The national government is represented by administrators appointed at the district and sub-district levels. *Suco* chiefs are directly elected and appoint a *suco* council (including representatives of women, youth and customary elders).

29. *Suco* councils are responsible for broad community affairs including maintenance of community infrastructure, protection of the environment, community dispute resolution and the maintenance of peace and security, in support of state institutions. However, *suco* councils do not have legislative or revenue raising powers. They are funded by the national Ministry of State Administration.

30. The Timor-Leste Government is exploring the establishment of municipal governments in order to decentralise decision making and service delivery, but has not yet developed a model for how municipal governments would be structured and operate.

31. Timor-Leste has not appointed an auditor-general, however there are a number of mechanisms for financial and administrative accountability within government. Each government agency has internal audit units. These units are supported by the Office of the Inspector-General (part of the Prime Minister's Office), which has a key oversight role in ensuring government agencies perform their functions properly. The Timor-Leste Government has also appointed an external financial auditor (Deloitte) while auditing capacities are strengthened within government.

32. The newly-established Supreme Court of Audit will become the government's main audit institution, however it is not yet fully active in undertaking financial and performance audits. Timor-Leste's Anti-Corruption Commission is empowered to investigate possible instances of corruption involving public funds and send briefs of evidence to Timor-Leste's Prosecutor-General for prosecution.

33. There are several other emerging mechanisms to monitor the performance of agencies. The Secretary of State for Institutional Strengthening monitors the performance of agencies in delivering on objectives under the Timorese Government's five-year program and its Strategic Development Plan. The new Development Partners Coordination Mechanism, managed by the Ministry of Finance, tracks government and

donor partners' progress against objectives set out in the government program and Strategic Development Plan.

34. Australia has provided substantial support to the Ministry of Finance to strengthen audit capacity in government. Australia also helped the government establish the Anti-Corruption Commission. Australia is supporting the Ministry of State Administration on quality assurance, training, oversight and audit in implementing its National Program for Suco Development.

Question: On page 8 of the Transcript, Mr Cox took a question on notice regarding the timeline for the establishment of land title. In addition to the answer, would you provide information on the details of the rollout of land title across the country?

35. The establishment of land title in Timor-Leste will depend on when relevant legislation passes through Timor-Leste's National Parliament and is promulgated by the President of Timor-Leste. The Timor-Leste Government has developed a package of legislation, which consists of a land title law, a property fund law and an expropriation law. It has completed public consultations on drafts of the laws. The package was considered by Timor-Leste's Council of Ministers (equivalent of cabinet) at meetings on 25 June 2013 and 9 July 2013. The package of draft laws will next need to be introduced into parliament for debate. Timor-Leste's Minister of Justice has expressed his desire for the package of land laws to be passed by parliament this year (2013).

36. The Timor-Leste Government is mapping claims to land ownership ahead of the allocation of land title. In the interim period until the land laws are passed, provisional titles known as 'certificates of registration' are being issued where claims to blocks of land are not disputed during the mapping process. The certificates do not provide formal title but provide some certainty to land claimants. It is proposed these certificates will be replaced by land titles once the new land laws come into force.

Question: Will it occur in Dili before the rest of the country? Will it occur for certain types of title before others?

37. We are not aware of any plans for land titling to occur in Dili before the rest of the country, nor are we aware that any priority will be given to certain types of land title over others.

Question: Is there to be an appeals or mediation process in cases of dispute? If yes, would you provide details?

38. The land law is expected to establish a mechanism for resolving disputed land claims. We are not aware of the details of that mechanism.

Question: In Papua New Guinea there have been issues concerning witchcraft and sorcery. Are there similar issues in Timor-Leste? If yes, would you provide details?

39. While animist beliefs are widespread, the department is not aware of any issues concerning witchcraft and sorcery in Timor-Leste.

Question: The Department of Resources, Energy and Tourism has advised that Timor-Leste's national Strategic Development Plan includes tourism as an industry to develop. The Plan aims to promote high end beach and ecotourism products which are sustainable and adhere to strict environmental standards. How viable is this goal, given the poor state of Timor-Leste's transport infrastructure?

40. The Strategic Development Plan outlines a program of infrastructure development to establish a network of quality roads to promote growth in tourism, rural development and industry. Improvements to transport infrastructure, if achieved, would improve the viability of plans to develop the tourism sector. The Timorese Government is working with development partners such as the Asian Development Bank, World Bank and Japan to improve national roads linking major centres. It is also working with the International Finance Corporation to seek private-sector partners to redevelop the international airport in Dili.

Question: What is the current state of Timor-Leste's tourism market?

41. Timor-Leste has a nascent tourism market. There were 28,824 tourist arrivals in 2010, according to Timor-Leste's Strategic Development Plan (which, however, acknowledges that not all visitors receiving tourist visas enter Timor-Leste solely for tourist purposes). Major tourist attractions include diving and eco-tourism and there are a number of small local and foreign-owned businesses offering these services to tourists. Major events, such as the Tour de Timor bicycle race and the Dili Marathon, attract a small number of international visitors as competitors. However, high travel costs, limited tourist infrastructure and a limited skilled workforce to service the sector are challenges to the growth of tourism.

Question: Have Australian tourism operators expressed an interest in investing in Timor-Leste?

42. There are a small number of Australian investments in the tourism sector in Timor-Leste. These include investments in the accommodation and hospitality sector and in diving and eco-tourism operations.

Question: Has EFIC funded any Australian companies into Timor-Leste?

43. EFIC has responded to enquiries regarding Timor-Leste from Australian companies. However, it has not provided any financing for projects in, or exports to, Timor-Leste to date.

Question: There seems to be a suggestion about trilateral security arrangements and economic arrangements. We would like to know your views on that?

44. We are working to enhance the trilateral security and economic arrangements between Australia, Timor-Leste and Indonesia. As noted in the department's submission, foreign ministers from Australia, Timor-Leste and Indonesia meet annually and in November 2012, the then Prime Minister participated in the inaugural trilateral leaders' meeting with the Indonesian President and Timorese Prime Minister.

45. The Prime Minister and Indonesian President agreed to continue advancing trilateral cooperation with Timor-Leste to promote greater economic links between eastern Indonesia, northern Australia and Timor-Leste during the Australia-Indonesia Annual Leaders' Meeting on 5 July 2013. We are giving consideration to ways to identify priority areas for trilateral economic cooperation with Timor-Leste and Indonesia and how that cooperation could be progressed.

46. Australian, Timorese and Indonesian defence ministers held an inaugural trilateral meeting in June 2013. Ministers agreed to hold regular trilateral meetings to discuss security issues of mutual interest and develop an agenda of practical cooperation.